



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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USDA Rural Development Texas AN No. 572 (1930-C)

January 13, 2003

CORRECTED

SUBJECT: Texas USDA Rural Development Management Fees
for Rural Rental Housing (RRH) Multi-Family Properties

TO: All Offices
USDA Rural Development, Texas

PURPOSE/INTENDED OUTCOME: The purpose of this Administrative Notice (AN) is to establish a uniform and consistent methodology for analysis and approval of management fees to provide a basis for management compensation for the management of Section 515 Rural Rental Housing (RRH) properties in Texas.

COMPARISON WITH PREVIOUS AN: Previously RD AN No. 3673 (1930-C) dated August 20, 2001, and Texas AN No. 565 (1930-C) dated April 15, 2002, had been issued on this subject. This Texas AN supplements RD AN No. 3804 (1930-C), dated November 22, 2002, and implements the State Director's guidance in the oversight of management operations in the RRH multi-family housing portfolio.

IMPLEMENTATION RESPONSIBILITIES: Rural Development Managers (RDM) and Rural Development Multi-Family Housing (MFH) Servicing Officials will ensure compliance with RD Instruction 1930-C, Exhibit B, subsection VC, VD and VE, pages 26 through 28 and this Texas AN for establishment of fair and reasonable management fees for the successful operation of Rural Housing Service (RHS) multi-family properties.

Texas USDA Rural Development State Office compiled and analyzed management fee data on all types of MFH properties from the following sources:

- *Income/Expense Analysis: Federally Assisted Apartments*, Institute of Real Estate Management (IREM) of the National Association of Realtors, 430 North Michigan Avenue, Chicago, Illinois 60611, Copyright 2000
- *Income/Expense Analysis: Conventional Apartments*, Institute of Real Estate Management (IREM) of the National Association of Realtors, 430 North Michigan Avenue, Chicago, Illinois 60611, Copyright 2000

EXPIRATION DATE
December 31, 2003

FILING INSTRUCTIONS:
Following RD Instruction 1930-C

USDA is an Equal Opportunity Lender, Provider and Employer.
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Washington, D.C. 20250-9410

- *Dollars & Cents of Multifamily Housing 2000: A Survey of Income and Expenses in Rental Apartment Communities*, ULI-the Urban Land Institute, Washington, D.C.
- Texas Department of Housing and Community Affairs Credit Underwriting, P.O. Box 13941, 507 Sabine Street #400, Austin, Texas 78711-3941, [http://www.tdhca.state.tx/us](http://www.tdhca.state.tx.us)
- Multi-Family Information System (MFIS), The United States Department of Agriculture, Management Fee MFIS Data 2000 year budget comparison, samples submitted by USDA Rural Development Texas Local Offices.

The above sources were reviewed to arrive at what is indicated to be reasonable and fair compensation for services performed by management agents according to actual fees paid based on the most current data available at the time of this review. When appropriate, an inflationary factor was applied to indicate a fair compensation for management services.

It is imperative that management fees be evaluated based on the bundle of services provided by the management agent. Such services may be shared with project site managers but cannot be duplicated in the management fee and also paid as a direct project expense. A technical review of the management plan and the management agreement, which should include detailed descriptions of site management and agent responsibilities, is critical in order to evaluate a fair and equitable cost for services.

As noted in RD AN No. 3804 (1930-C), November 22, 2002, the National Office advised field office officials that administrative expenses exceeding 23 percent of the total sources of potential income (i.e., calculating gross potential rent using basic rental rates) highlights a need for closer review for unnecessary expenditures. This guidance assumes that supervisory visit reports, physical inspections, etc., provide evidence that the project is performing adequately and that budgeted items for repair and administrative operations appear, from inspections, to be accurately reflected from the review of project operations. National Office policy guidance also indicated that administrative expenses of 10 percent or less may be inappropriately low and that expenses exceeding 30 percent may be inappropriately high. Administrative expenses of 23 to 30 percent were identified as being higher than typically justified, and warranted careful review. Such projects may need to provide justifications, especially for expenditures that appear to deviate substantially when compared to the operations of similar projects.

Attachment 2 contains typical industry property tasks included in a management fee, as well as, tasks that may be paid as direct project expenses from the property general operating account. The local servicing official must thoroughly analyze the property management agreement and determine the scope of the bundle of services that are provided by the management agent within their fee.

A schedule of the acceptable management fee structure in Texas USDA Rural Development is provided in Attachment 1 of this AN. The following criteria should be applied:

1. Management Fees will be established based on
 - (a) the scope of service documented on the *Property Management Services Task Chart* (Attachment 2) which should be provided by the borrower/agent as an attachment to the Management Plan and/or the Management Agreement; and
 - (b) the performance level of the management agent (see Attachment 1 for criteria of low, moderate, and high performance level criteria).
2. A management agent must provide a project-specific *Property Management Services Task Chart* as well as site personnel job descriptions.
3. Evaluation of the management agent performance will not be subjective. Documentation will be required by the servicing official for low and high performance levels in accordance with the criteria shown on Attachment 1. Agent and site management duties performed as indicated on Attachment 2 should be considered moderate in scope.
4. A management fee will not be collected for a "rent free" unit.
5. Management fees approved in accordance with the *Acceptable Management Fee Structure in Texas USDA Rural Development* table (Attachment 1) must be collected based on the project rent roll as of the 1st of the month. A full per unit/per month management fee will be collected on occupied units. A fee not to exceed 50% of the approved per unit/per month fee may be collected for a vacant habitable unit. A management fee will not be authorized for any uninhabitable unit(s). When reviewing a management plan and/or agreement, any other basis on which the management fee is paid; such as, per occupied unit per month, per unit per month, percent of gross receipts, or other manner of compensation; should be noted and taken into consideration when a management fee is approved by USDA Rural Development. The Agency's responsibility is to assure that regardless of the method used, comparable compensation is paid for comparable services. The method of compensation for the management fees should be noted in the management fee analysis.
6. Management fee requests outside the parameters of the fees noted on Attachment 1 will be addressed on a case by case basis. Requests must include a completed Management Services Task Chart as shown in Attachment 2, with complete and detailed documentation of services and compensation provided for the management fee requested. Requests, with documentation, are to be submitted to the RDM who will review the request, issue a recommendation, and submit all material to the State Director for a decision on the merit of the request.
7. Initial management agreements for new management agents with no experience in the Section 515 program area will be limited to an initial two year probationary management agreement. At the end of the two year performance period, RDMs are to review and determine management agent's performance for a recommendation to continue management services.
8. RDMs are encouraged to obtain management data from local rental housing and apartment associations within their area of responsibility.

Prior to the start of each USDA Rural Development fiscal year of operation, the existing management fee structure will be extended or re-evaluated for the coming fiscal year, and modified as necessary.

Questions may be directed to Gayle Ledyard, Multi-Family Housing Specialist, at (254) 742-9760.

/s/ BRYAN DANIEL

BRYAN DANIEL
State Director

Attachments

MANAGEMENT FEE STRUCTURE FOR TEXAS USDA RURAL DEVELOPMENT

Performance Level

		LOW	MODERATE	HIGH
SERVICE	LOW	26	28	30
OF	MODERATE	28	30	33
SCOPE	HIGH	30	33	36

PERFORMANCE LEVEL

LOW

- 1) Maintenance level is minimal
- 2) Reports past due or not completed properly, TC's completed with above average error ratios
- 3) Fails to respond to Agency requests within requested time frames
- 4) Supervisory Visit rating at Below Average or unacceptable
- 5) All accounts are not funded and/or funds are not used for their intended purpose
- 6) Vacancy concerns, slow make ready of down units
- 7) Budgets submitted late, fails to cooperate with Agency to resolve issues

MODERATE

- 1) Maintenance acceptable and timely
- 2) Reports adequate and submitted by due date, TC's completed with minimal errors
- 3) Usually responds to Agency inquiries and requests within requested time frames
- 4) Supervisory Visit rating at Satisfactory
- 5) All accounts current or approved work out plan in effect
- 6) Few vacancy concerns with timely make ready of down units
- 7) Operating Budget submitted prior to start of fiscal year

HIGH

- 1) Maintenance kept at high level
- 2) All reports submitted prior to due date, TC's property completed with few transmission errors
- 3) Always responds to Agency inquiries and requests within requested time frames and shows due diligence in working with Agency to resolve issues
- 4) Supervisory Visit exceeds Satisfactory
- 5) All accounts properly funded and funds are prudently used. When appropriate, amended budgets are submitted, and project in compliance with work out plan
- 6) 90% or greater occupancy, vacant units are promptly made ready for new tenants
- 7) Operating budget submitted 60 days prior to the start of fiscal year. Agent diligent to resolve budget issues

*When deficiencies are due to poor Agent performance, the borrower should be notified and servicing actions should be initiated in accordance with AN 3710 (1930-C) 2/12/2002 & AN 3673 (1930-C) 8/20/2001

SCOPE OF SERVICE

LOW

- 1) Agent does not provide accounting bookkeeping service
- 2) Agent responsibility decreases when duties are transferred to on-site manager or contract personnel
- 3) Agent does not submit TC's

MODERATE

- 1) Agent provides accounting bookkeeping services
- 2) Agent does typical management services in accordance with Attachment 3 Property Management Service Task Chart
- 3) Agent submits TC's

HIGH

- 1) Agent provides all accounting bookkeeping services required by RD Instruction 1930-C
- 2) Agent's responsibilities increased by performing a majority of site management or contract personnel duties
- 3) Agent submits TC's and project worksheets and submits through Industry Interface. Tenant processing primarily performed in agent's office.

SAMPLE PROPERTY MANAGEMENT SERVICES TASK CHART

			Property Tasks		
Property Tasks	Property Resp.	Agent Resp.	Must be done at Property	Possibly done offsite or at Property	Agents Office
Application & Lease Processing					
Show Apartments	X		X		
Take Applications	X			X	
Waiting List preparation	X			X	
Review & Disposition of Applicants	X			X	
Notify Applicants of Disposition	X			X	
Tenant Certification & Recert Prep & approval	X			X	
Tenant Certification & Recert Transmittal	X			X	
Preparing Lease & move-in Documentation	X			X	
Re-certification Notices Agent	X			X	
Project Worksheet Preparation	X			X	
Monthly Rental Assistance Request	X			X	
Other Notices (Landlord Tenant)	X			X	
Site Maintenance					
Site maintenance	X		X		
Site Maintenance Work Order Preparation	X			X	
RFP/Bid Spec/Vendor Coordinator	X			X	
Site Utilities			X		
Accounting					
Rent Collection & Posting	X			X	
Vendor Payment Preparation	X			X	
Vendor Accounts payable-Preparing Checks	X	X			X
Distributing Checks	X			X	
Administrative					
Site management payroll	X			X	
Site Management Benefits (Medical, Insurance, Dental Insurance, etc	X			X	
Employer's FICA/Medicare Matching Taxes	X			X	
Worker's Comp Expense--Tied Directly to Payroll	X			X	
Payroll fees (I.e., ADP, Paychex, Employee Leasing	X			X	
Maintain Site Employee Personnel Records		X			X
Approve Time Sheets and Prepare/Process Payroll Worksheets		X			X
Administer Rate of Pay and Track Time Of		X			X
Auditing expense	X			X	
Legal Expenses	X			X	
Advertising-Property & Employment	X			X	
Property Telephone & Long Distance Tolls	X			X	
Property postage, Supplies & Copying	X			X	
Site Management Training	X			X	
Resident newsletter/programs	X			X	
Taxes & Insurance					
Property Taxes Administration		X			X
Tax Preparation--Federal Tax Return & Related K-1's	X			X	
Tax Preparation--Tangible	X			X	
Annual License & Required Fees	X			X	
Insurance Expense (Property, Liability)	X		X		
Property Insurance Administration		X			X
Information Systems					
Information Systems--Property	X			X	
Information System--Agent Office		X			X
Property Management Oversight					
Regional Managers Time		X			X
Regional Managers Travel		X			X
Regional Managers Benefits		X			X
Property Administrative Support					
Program Compliance--USDA Rural Development		X			X
Responding to Supervisory & Compliance Visits		X			X
Management Plan & Agreement Preparation		X			X
Management Procedure & Forms Preparation		X			X
Review & Implement Regulation Changes		X			X
Budget & Capital Replacement Plan preparation		X			X
Reserve Withdrawal Request		X			X
Servicing Workout Plans Preparation		X			X
Section 504/ADA/Fair Housing	X			X	
Program Compliance--LIHTC, Other Approved Financing		X			X
Program Annual Reporting and Monitoring Fees--Other Financing	X				X
Responding to Other Funding Reviews		X			X
Prepare Other Funding Program Reports		X			X
Investor Reporting		X			X
Asset Management/Cash Management Issues		X			X